

In action, be primitive: in foresight,
a strategist.

RENE CHAR

Strategic marketing

CHAPTER

TWO

Chapter objectives

After reading this chapter, you should be able to:

- Explain company-wide strategic planning and its principal steps.
- Describe how companies develop mission statements and objectives.
- Explain how companies evaluate and develop their business portfolios.
- Explain marketing's role in strategic planning.
- Describe the marketing management process.
- Show how marketing organisations are changing.

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Prelude case Poor little rich brands

'We prefer the Blue Circle Café to the Sotto Vento', exclaims Sten, the son of a Norwegian millionaire. The Sotto Vento is on the exclusive Costa Smeralda, and is Sardinia's most famous disco but, says Sten, 'is already being invaded by "the Rolex crowd".'

Sten has a point. While most people never aspire to owning a pair of €2,000 Gucci crocodile skin loafers, some do. According to Sten, those who want to show off such belongings go to Antibes or St Tropez. Costa Smeralda is different. The likes of Sylvester Stallone, Tom Cruise and Nicole Kidman go there so as not to be seen. They do not wear Gucci, Prada or Versace to display their success but because that is what their local store sells. Whereas luxury brands bestow glamour to ordinary mortals, the super rich who holiday at Costa Smeralda bestow glamour to the luxury brands.

Costa Smeralda retains its exclusivity by staying small, being well guarded and being accessible only by helicopter or cabin cruiser. However, life has recently not been so easy for the luxury brands that adorn its visitors. Many of the luxury-brand makers were founded in the 1950s by mainly Italian entrepreneur designers who are now ageing and whose families lack the design and management skills to run an increasingly competitive business. Luxury-goods sales have also been hit hard by the worldwide economic slowdown.

The 'new idea' for luxury-goods makers is to control the whole value chain, from manufacture to distribution, retailing and marketing. This comes expensive where advertising costs approach 35 per cent of sales and the rental of the prime retail site they need can cost up to €10,000 per square metre. Covering such costs requires the sales volume and working capital that many of the family firms lack. According to Cedric Magnelia, of Credit Suisse First Boston, gaining sales by brand extensions into such obvious areas as perfumes has been 'done to death'. There also seems little further to gain from the 'old idea' of designers creating stunning but hugely loss-making *haute couture* while money was made from licensees selling perfumes, handbags and scarves. Down-market associations easily taint luxury brands. TAG Heuer and Porsche both tried stretching their product ranges down-market. Both increased sales, tarnished their luxury brand names and retreated back up-market.

The formation of luxury conglomerates has become part of the 'new idea'. These offer negotiating power in obtaining retail space,

skills in areas where brands could be extended, access to capital and managerial skills. Two of the biggest of these are French LVHM, who own Louis Vuitton, Christian Dior, Givenchy and others, and Swiss Richemont, whose brands include Cartier, Dunhill and Piaget. The recognition of the conglomerate strategy has led to a feeding frenzy as Gucci consume Italian shoemaker Sergio Rossi, and LVHM and Prada jointly share out Fendi with its famous Baguette handbag. Laurent Paichot, of the Federation of Swiss Watch Makers, thinks being bought by a conglomerate is the only alternative for many small watchmakers: 'Due to globalisation everything is expensive – especially advertising.' He continues, 'Bigger companies have the economic power to really push the product and consumers will buy from a brand they know well.'

However, in this industry, synergy is hard to find. Morgan Stanley Dean Witter's Claire Kent says 'cost savings in a takeover in this industry are spurious'. How can synergy be achieved in a market where the appeal is the idiosyncratic way products are designed, made and marketed? Hermès boasts that it takes them longer to make their Kelly bags than it takes BMW to assemble a car! Even where cost savings are easy and logical to find, they can endanger brands. Richemont is eager to clarify that Mont Blanc factories do not make Cartier pens.

LVHM's broad range and strength in the Japanese market have helped it weather the economic storm better than many of its competitors. Its performance contrasts with that of Gucci whose sales are heavily down because of merchandising errors and excessive time turning round Yves St Laurent, a struggling acquisition.

A few luxury-goods makers, such as Rolex, Mondane Watch and Prada, are holding out against the force of the 'new idea'. Mondane intends to remain a speciality watchmaker while Rolex is adamant that it will remain independent, although it seems unlikely that Sten will be wearing one.¹

Questions

1. What makes a luxury good or service desirable?
2. Is the economic drive for scale inconsistent with consumers' desires in the €60 billion luxury-goods industry?
3. Does Sten's sneering at 'the Rolex crowd' suggest that Rolex is failing in its desire to remain an independent luxury-goods maker?

While most people never aspire to owning a pair of €2,000 Gucci crocodile skin loafers, some do.

Introduction

Just like the luxury-goods makers in the prelude case, all companies need strategies to meet changing markets. No one strategy is best for all companies. Each company must find the way that makes most sense, given its situation, opportunities, objectives and resources. Marketing plays an important role in strategic planning. It provides information and other inputs to help prepare the strategic plan. Strategic planning is also the first stage of marketing planning and defines marketing's role in the organisation. The strategic plan guides marketing, which must work with other departments in the organisation to achieve strategic objectives.

Here we look at the three stages of strategic market planning: first, the strategic plan and its implications for marketing; second, the marketing process; and third, ways of putting the plan into action.

Strategic planning

Overview of planning

Many companies operate without formal plans. In new companies, managers are sometimes too busy for planning. In small companies, managers may think that only large corporations need planning. In mature companies, many managers argue that they have done well without formal planning, so it cannot be very important. They may resist taking the time to prepare a written plan. They may argue that the marketplace changes too fast for a plan to be useful – that it would end up collecting dust.²

Failing to plan means planning to fail. Moreover, formal planning yields benefits for all types of company, large and small, new and mature. It encourages systematic thinking. It forces the company to sharpen its objectives and policies, leads to better coordination of company efforts, and provides clearer performance standards for control. The argument that planning is less useful in a fast-changing environment makes little sense. The opposite is true: sound planning helps the company to anticipate and respond quickly to environmental changes, and to prepare better for sudden developments. Such planning could have helped Carrefour,³ Europe's largest retailer, avoid their share price collapse after they were first dismissive of the impact of the Internet on their business and then announced a vague, €1 billion e-commerce strategy.⁴

Companies usually prepare annual plans, long-range plans and strategic plans:

- The **annual plan** is a short-term plan that describes the current situation, company objectives, the strategy for the year, the action programme, budgets and controls. For an oil company, such as BP, this is about maintaining profitability through the continuing Middle East crises and Europe's continued slow growth.
- The **long-range plan** describes the primary factors and forces affecting the organisation during the next several years. It includes the long-term objectives, the main marketing strategies used to attain them and the resources required. This long-range plan is reviewed and updated each year so that the company always has a current long-range plan. The company's annual and long-range plans deal with current businesses and how to keep them going. For BP the long-range plan looks at future oil supplies and strategies for emerging markets, such as China.
- The **strategic plan** involves adapting the firm to take advantage of opportunities in its constantly changing environment. It is the process of developing and maintaining a strategic fit between the organisation's goals and capabilities and its changing marketing

Annual plan—A short-term plan that describes the company's current situation, its objectives, the strategy, action programme and budgets for the year ahead, and controls.

Long-range plan—A plan that describes the principal factors and forces affecting the organisation during the next several years, including long-term objectives, the chief marketing strategies used to attain them and the resources required.

Strategic plan—A plan that describes how a firm will adapt to take advantage of opportunities in its constantly changing environment, thereby maintaining a strategic fit between the firm's goals and capabilities and its changing market opportunities.

opportunities. BP's use of its initials to represent Beyond Petroleum reflects that company's strategic view of its future, in which environmental issues are important and the era of the internal combustion engine declines.⁵

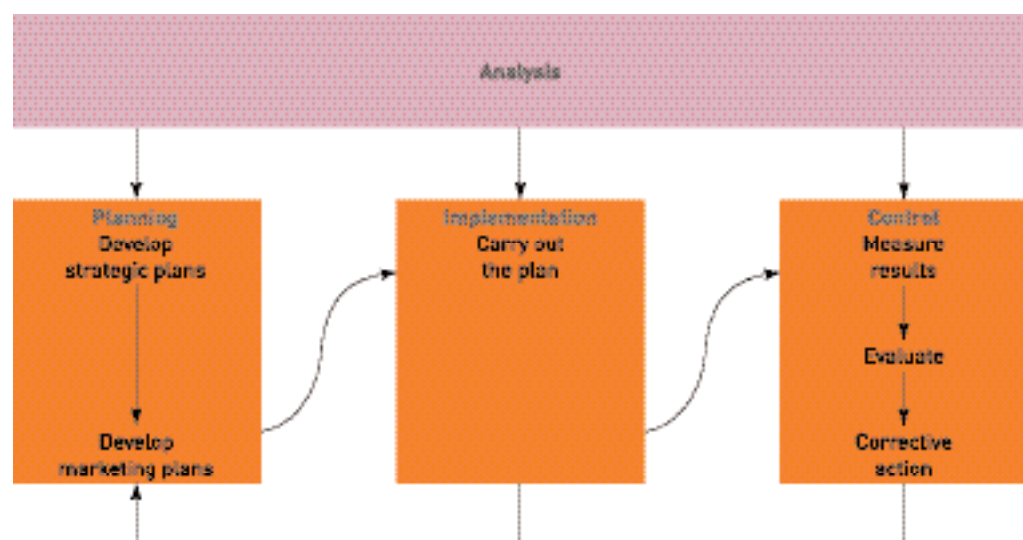
Strategic planning sets the stage for the marketing plan. It starts with its overall purpose and mission. These guide the formation of measurable corporate objectives. A corporate audit then gathers information on the company, its competitors, its market and the general environment in which the firm competes. A SWOT analysis gives a summary of the strengths and weaknesses of the company together with the opportunities and threats it faces. Next, headquarters decides what portfolio of businesses and products is best for the company and how much support to give each one. This helps to provide the strategic objectives that guide the company's various activities. Then each business and product unit develops detailed marketing and other functional plans to support the company-wide plan. Thus marketing planning occurs at the business-unit, product and market levels. It supports company strategic planning with more detailed planning for specific marketing opportunities. For instance Nestlé, the world's largest food manufacturer, develops an overall strategic plan at its headquarters in Vevey, Switzerland. Below that, each strategic group, such as confectionery, develops subordinate strategic plans. These feed into the strategic plan's national operations. At each level, marketing and other functional plans will exist. At the final level, brand plans cover the marketing of brands such as KitKat, Nescafé and Friskies Felix in national markets.

The planning process

Putting plans into action involves four stages: analysis, planning, implementation and control. Figure 2.1 shows the relationship between these functions, which are common to strategic planning, marketing planning or the planning for any other function.

- **Analysis.** Planning begins with a complete analysis of the company's situation. The company must analyse its environment to find attractive opportunities and to avoid environmental threats. It must analyse company strengths and weaknesses, as well as current and possible marketing actions, to determine which opportunities it can best pursue. Analysis feeds information and other inputs to each of the other stages.

Figure 2.1 Market analysis, planning, implementation and control



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- *Planning.* Through strategic planning, the company decides what it wants to do with each business unit. Marketing planning involves deciding marketing strategies that will help the company attain its overall strategic objectives. Marketing, product or brand plans are at the centre of this.
- *Implementation.* Implementation turns strategic plans into actions that will achieve the company's objectives. People in the organisation who work with others, both inside and outside the company, implement marketing plans.
- *Control.* Control consists of measuring and evaluating the results of plans and activities, and taking corrective action to make sure objectives are being achieved. Analysis provides information and evaluations needed for all the other activities.

The strategic plan

The strategic plan contains several components: the mission, the strategic objectives, the strategic audit, SWOT analysis, portfolio analysis, objectives and strategies. All of these feed from and feed into marketing plans.

The mission

A mission states the purpose of a company. Firms often start with a clear mission held within the mind of their founder. Then, over time, the mission fades as the company acquires new products and markets. A mission may be clear, but forgotten by some managers. An extreme case of this was the Anglican Church Commissioners, who thought they had the 'Midas touch' when they started speculating on the international property market. They found out that markets go down as well as up and lost a third of the Church's ancient wealth in the process.⁶ Other problems can occur when the mission may remain clear but no longer fits the environment. The luxury-goods firms in the prelude case are struggling with that problem.

When an organisation is drifting, the management must renew its search for purpose. It must ask, What business are we in? What do consumers value? What are we in business for? What sort of business are we? What makes us special? These simple-sounding questions are among the most difficult that the company will ever have to answer. Successful companies continuously raise these questions and answer them. Asking such basic questions is a sign of strength, not uncertainty.

Many organisations develop formal mission statements that answer these questions. A **mission statement** is a statement of the organisation's purpose – what it wants to accomplish in the larger environment. A clear mission statement acts as an 'invisible hand' that guides people in the organisation, so that they can work independently and yet collectively towards overall organisational goals.

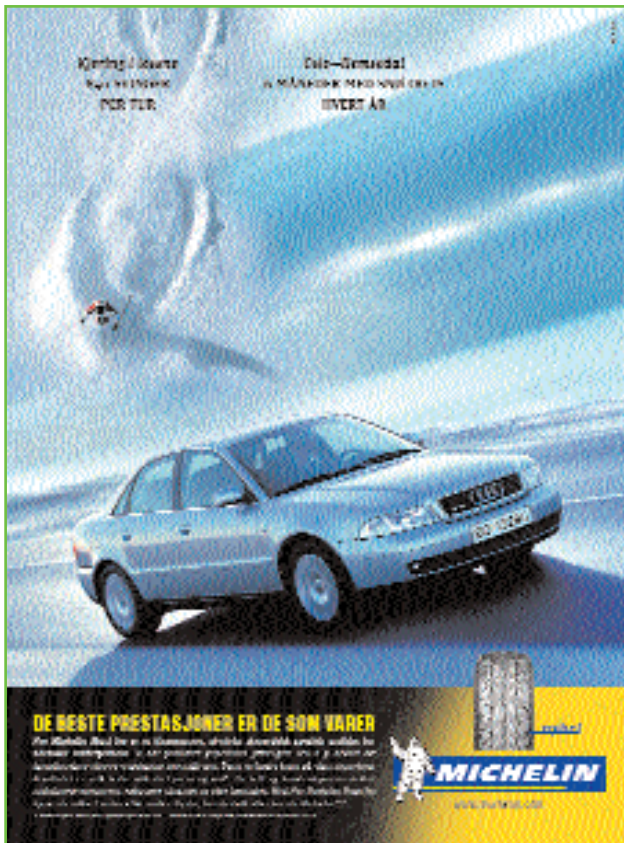
Traditionally, companies have defined their business in product terms ('we manufacture furniture'), or in technological terms ('we are a chemical-processing firm'). But mission statements should be *market-oriented*.

What business are we in?

Asking this question helps. Market definitions of a business are better than product or technological definitions. Products and technologies eventually become outdated, but basic market needs may last for ever. A market-oriented mission statement defines the business based on satisfying basic customer needs. Thus Rolls-Royce is in the power business, not the aero-engine business. Visa's business is not credit cards, but allowing customers to exchange value – to exchange assets, such as cash on deposit or equity in a home, for virtually anything,

Mission statement—

A statement of the organisation's purpose – what it wants to accomplish in the wider environment.



Setting company objectives and goals. Michelin defines its mission as 'service to people and their transportation', rather than reducing its purpose to the mere production of tyres. This mission leads to specific business and marketing objectives. 3M has held on to its mission to be innovative through product generations.

SOURCE: (left) Michelin and Hjemmet Mortensen AS; (right) Advertising courtesy of 3M.

anywhere in the world. Creative 3M does more than just make adhesives, scientific equipment and healthcare products; it solves people's problems by putting innovation to work for them.

Who are our customers?

This is a probing question. Who are the customers of Rolls-Royce's new Trent aero-engine? At one level it is the airframers, like Boeing and European Airbus. If Rolls-Royce can get an airframer to launch a new aircraft with a Rolls-Royce engine, this saves development costs and makes early orders likely. Is it the airline or leasing companies that eventually buy the engines? They will certainly have to sell to them as well. Is it the pilot, the service crew or even the passenger? Unlike the competition, Rolls-Royce has a brand name that is synonymous with prestige and luxury.

What are we in business for?

This is a hard question for non-profit-making organisations. Do universities exist to educate students or to train them for industry? Is the pursuit of knowledge by the faculty the main reason for their existence? If so, is good research of economic value or is pure research better?

What sort of business are we?

This question guides the strategy and structure of organisations. Companies aiming at *cost leadership* seek efficiency. These firms, like Aldi or KwikSave, run simple, efficient

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organisations with careful cost control. These contrast with *differentiators*, like Sony, who aim to make profits by inventing products, such as the Walkman, whose uniqueness gives a competitive edge. *Focused* companies concentrate upon being the best at serving a well-defined target market. They succeed by tailoring their products or services to customers they know well. In Britain, Coutts & Co., a Royal Bank of Scotland subsidiary, does this by providing 'personal banking' to the very wealthy. Michael Porter⁷ describes a fourth option that occurs if firms do not define how they are to do business: *stuck in the middle*.

Management should avoid making its mission too narrow or too broad. A lead-pencil manufacturer that says it is in the communication equipment business is stating its mission too broadly. A mission should be:

- *Realistic*. Singapore International Airlines is excellent, but it would be deluding itself if its mission were to become the world's largest airline.
- *Specific*. It should fit the company and no other. Many mission statements exist for public-relations purposes, so lack specific, workable guidelines. The statement 'We want to become the leading company in this industry by producing the highest-quality products with the best service at the lowest prices' sounds good, but it is full of generalities and contradictions. Such motherhood statements will not help the company make tough decisions.
- Based on *distinctive competencies*. Bang & Olufsen has the technology to build microcomputers, but an entry into that market would not take advantage of its core competencies in style, hi-fi and exclusive distribution.
- *Motivating*. It should give people something to believe in. It should get a 'Yeah!', not a yawn or a 'Yuck!'. A company's mission should not say 'making more sales or profits' – profits are only a reward for undertaking a useful activity. A company's employees need to feel that their work is significant and that it contributes to people's lives. Contrast the mission of Greenpeace, 'to ensure the ability of the Earth to nurture life in all its diversity', with the strategy of ABB, '[to] offer more value for customers while building a linear organization'.

Visions guide the best missions. A vision is a contagious dream, a widely communicated statement or slogan that captures the needs of the time. Sony's president, Akio Morita, wanted everyone to have access to 'personal portable sound', and his company created the Walkman. Richard Branson thought 'flying should be fun', so he founded Virgin Airlines. Julian Richer has become a business guru after making his Richer Sounds hi-fi dealer the 'Friendliest, cheapest, busiest', most profitable and productive in the industry.⁸

The company's mission statement should provide a vision and direction for the company for the next 10–20 years. It should not change every few years in response to each new turn in the environment. Still, a company must redefine its mission if that mission has lost credibility or no longer defines an optimal course for the company.⁹ The hostile environment caused Siemens, the German electronics giant, to review its strategy. Its seven core statements (Figure 2.2) provided strong communications to drive its strategy, structure and style of management.

From mission to strategic objectives

The company's mission needs to be turned into strategic objectives to guide management. Each manager should have objectives and be responsible for reaching them. For example, its fertiliser business unit is one of International Minerals & Chemical Corporation's many activities. The fertiliser division does not say that its mission is to produce fertiliser. Instead, it says that its mission is to 'increase agricultural productivity'. This mission leads to a hierarchy of objectives, including business objectives and marketing objectives. The mission of

Figure 2.2 Siemens' seven core statements

Strategy	Competitive strength	Achieve a sustained leading position worldwide
Identity	Progress	Technological, social and marketing competences focused on progress
Entrepreneurial style	Will to lead	Agree on clear objectives and vigorously transform them into competitive advantage
Managers	Entrepreneurship	Managers and employees think and act as if it were their own company
Executive decision making	Speed	Faster decision making through integrated business functions
New organisation	Close to the customer	Marketing-oriented business functions create entrepreneurial freedom
Strength	Systems integration	Integrate competitive products into problem-solving systems

increasing agricultural productivity leads to the company's business objective of researching new fertilisers that promise higher yields. Unfortunately, research is expensive and requires improved profits to plough back into research programmes. So improving profits becomes another key business objective. Profits are improved by increasing sales or reducing costs. Sales increase by improving the company's share of the domestic market, or by entering new foreign markets, or both. These goals then become the company's current marketing objectives. The objective to 'increase our market share' is not as useful as the objective to 'increase our market share to 15 per cent in two years'. The mission states the philosophy and direction of a company, whereas the strategic objectives are measurable goals.

Strategic audit

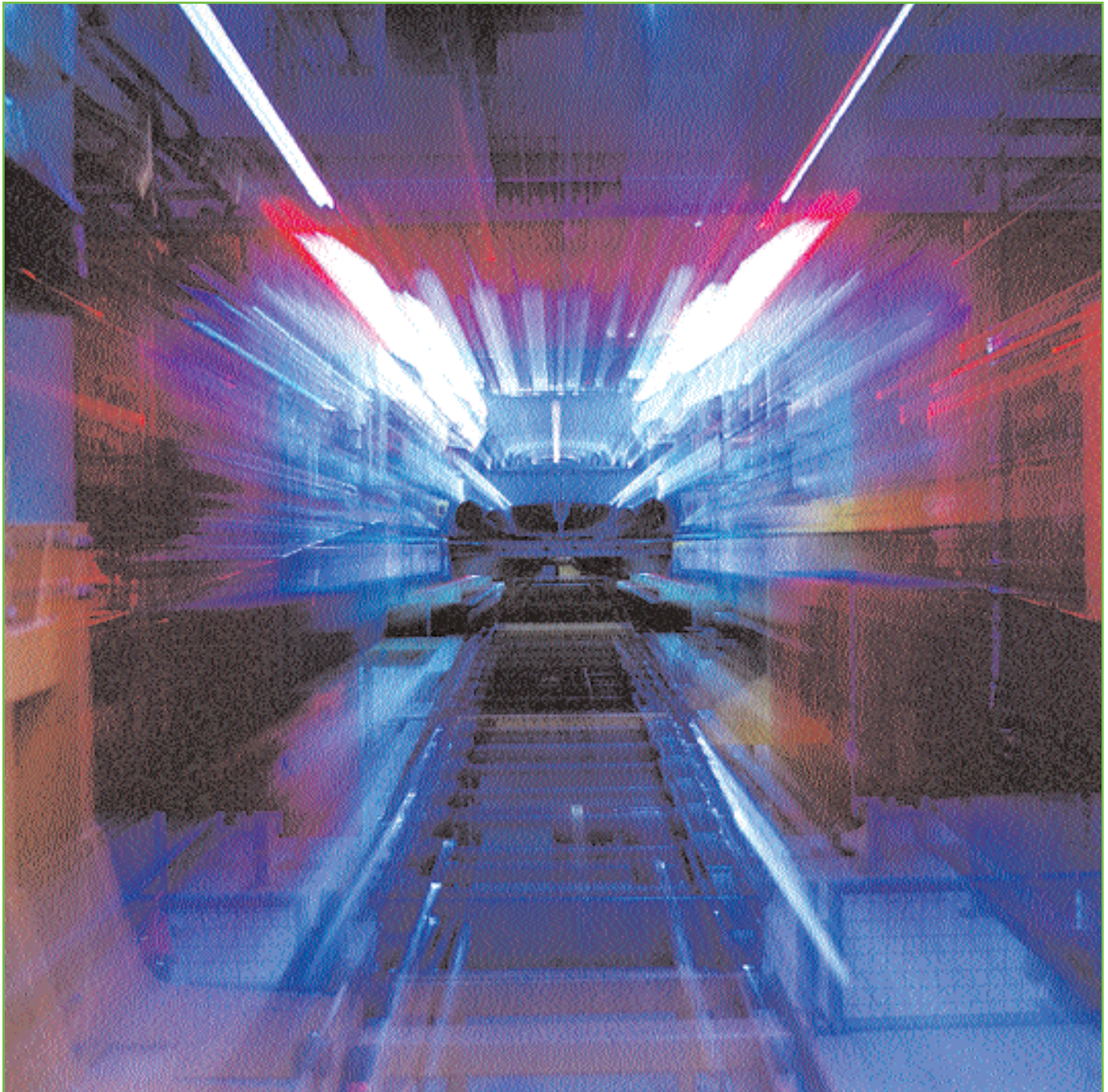
'Knowledge is power': so stated Francis Bacon, the sixteenth-century philosopher, while according to the ancient Chinese strategist Sun Zi, 'The leader who does not want to buy information is inconsiderate and can never win.' The strategic audit covers the gathering of this vital information. It is the intelligence used to build the detailed objectives and strategy of a business. It has two parts: the external audit and the internal audit.

The **external audit** or marketing environment audit examines the macroenvironment and task environment of a company. EuroDisney's problems can be partly explained by an excessive faith in company strengths and too little attention being paid to the macroenvironment. French labour costs make the park much more expensive than in America, Europe's high travel costs add to guests' total bill, and the north European climate takes the edge off all-year-round operations. EuroDisney contrasts with the success of Center Parcs. This Dutch company's resort hotels offer north Europeans undercover health and leisure facilities that they can enjoy all year round.

The **internal audit** examines all aspects of the company. It covers the whole *value chain* described by Michael Porter.¹⁰ It includes the primary activities that follow the flow of goods or services through the organisation: inbound logistics, operations, outbound logistics, sales and marketing, and after-sales services. In addition, it extends to the support activities on which the primary activities depend: procurement, technology development, human resource management and the infrastructure of the firm. These go beyond traditional marketing activities, but marketing strategy depends on all of them. A key to the Italian Benetton's

External audit—A detailed examination of the markets, competition, business and economic environment in which the organisation operates.

Internal audit—An evaluation of the firm's entire value chain.



Siemens pursues its mission by providing totally integrated automation technology to its business customers in the automotive industry.
SOURCE: Siemens AG Automation and Drives.

international success is a system that allows it to change styles and colours rapidly. Unlike traditional mass-clothing manufacturers, which have to order fabrics in colours and patterns over a year ahead of seasons, Benetton's design and manufacturing technology allows it to change within a season.

Reading financial statements is basic to understanding the state of a company and seeing how it is developing. The operating statement and the balance sheet are the two main financial statements used. The **balance sheet** shows the assets, liabilities and net worth of a

Balance sheet—A financial statement that shows assets, liabilities and net worth of a company at a given time.

2.1 Albumart.com: But will we make money?

Exhibit 2.1 shows the 2003 operating statement for Albumart.com, a start-up that has avoided the big bucks and bust of Boo.com and others. They market specialised picture frames designed to display 'album art'. They enable people to make a wall decoration by slotting an old favourite vinyl album or CD cover directly into the frame. This statement is for a retailer; the operating statement for a manufacturer would be somewhat different. Specifically, the section on purchases within the 'Cost of goods sold' area would be replaced by 'Cost of goods manufactured'.

Exhibit 2.1 Operating statement for Albumart.com for year ending 31 December 2003 (€)

Gross sales		325,000
less: Sales returns and allowances		<u>25,000</u>
Net sales		300,000
<i>Cost of goods sold</i>		
Beginning inventory, 1 January 2000, at cost	60,000	
Purchases	150,000	
plus: Freight-in	<u>10,000</u>	
Net cost of delivered purchases	<u>160,000</u>	
Cost of goods available for sale	220,000	
less: Ending inventory, 31 December 2000, at cost	<u>45,000</u>	
Total cost of goods sold		<u>175,000</u>
Gross margin		125,000
<i>Expenses</i>		
Selling expenses	50,000	
Administrative expenses	30,000	
General expenses	<u>20,000</u>	
Total expenses		<u>100,000</u>
Net profit		25,000

The outline of the operating statement follows a logical series of steps to arrive at the firm's €25,000 net profit figure:

Net sales	€300,000
Cost of goods sold	<u>-€175,000</u>
Gross margin	€125,000
Expenses	<u>-€100,000</u>
Net profit	€25,000

The first part details the amount that Albumart.com received for the goods sold during the year. The sales figures consist of three items: gross sales, returns or allowances, and net sales. *Gross sales* is the total amount charged to customers

...2.1

during the year for merchandise purchased from Albumart.com. Some customers returned merchandise. If the customer gets a full refund or full credit on another purchase, we call this a return. Other customers may decide to keep the item if Albumart.com will reduce the price. This is called an allowance. By subtracting returns and allowances from gross sales:

Gross sales	€325,000
Returns and allowances	-€25,000
Net sales	€300,000

The second part of the operating statement calculates the amount of sales revenue that Albumart.com retains after paying the costs of the merchandise. We start with the inventory in the store at the beginning of 2003. During the year, Albumart.com aim to buy €150,000 worth of frames. Albumart.com also has to pay an additional €10,000 to get the products delivered, giving the firm a net cost of €160,000. Adding the beginning inventory, the cost of goods available for sale amounted to €220,000. The €45,000 ending inventory on 31 December 2003 is then subtracted to come up with the €175,000 *cost of goods sold*.

The difference between what Albumart.com paid for the merchandise (€175,000) and what it sold it for (€300,000) is called the *gross margin* (€125,000).

In order to show the profit Albumart.com 'cleared' at the end of the year, we must subtract from the gross margin the expenses incurred while doing business. *Selling expenses* included two employees, advertising in music magazines and the cost of mailing the merchandise. Selling expenses totalled €50,000 for the year. *Administrative expenses* included the salary for an office manager, office supplies such as stationery and business cards, and miscellaneous expenses including an administrative audit conducted by an outside consultant. Administrative expenses totalled €30,000 in 1995. Finally, the *general expenses* of rent, utilities, insurance, and depreciation came to €20,000. Total expenses were therefore €100,000 for the year. By subtracting expenses (€100,000) from the gross margin (€125,000), we arrive at the *net profit* of €25,000 for Albumart.com during 2000. Not a lot, but not a loss.

company at a given time. The **operating statement** (also called profit-and-loss statement or income statement) is the more important of the two for marketing information. It shows company sales, cost of goods sold, and expenses during a specified time period. By comparing the operating statement from one time period to the next, the firm can spot favourable or unfavourable trends and take appropriate action. Marketing Insights 2.1 describes these statements in more detail and explains their construction.

Operating statement (profit-and-loss statement or income statement)—

A financial statement that shows company sales, cost of goods sold and expenses during a given period of time.

SWOT analysis—A distillation of the findings of the internal and external audits which draws attention to the critical organisational strengths and weaknesses and the opportunities and threats facing the company.

SWOT analysis

SWOT analysis draws the critical strengths, weaknesses, opportunities and threats (SWOT) from the strategic audit. The audit contains a wealth of data of differing importance and reliability. SWOT analysis distils these data to show the critical items from the internal and external audits. The number of items is small for forceful communications, and they show where a business should focus its attention.

Opportunities and threats

Managers need to identify the main threats and opportunities that their company faces. The purpose of the analysis is to make the manager anticipate important developments that can have an impact on the firm. A large pet food division of a multinational company could list the following.

Opportunities

- *Economic climate.* Because of improved economic conditions, pet ownership is increasing in almost all segments of the population.
- *Demographic changes.* (1) Increasing single parenthood, dual-income families and ageing will increase the trend towards convenient pet foods (from wet to dry); and (2) the aged population will grow and increasingly keep pets as company.
- *Market.* The pet food market will follow the human market in the concern for healthy eating and pre-prepared luxury foods.
- *Technology.* New forms of pet food that are low in fat and calories, yet highly nutritious and tasty, will soon emerge. These products will appeal strongly to many of today's pet food buyers, whose health concerns extend to their pets.

Threats

- *Competitive activity.* A large competitor has just announced that it will introduce a new premium pet food line, backed by a huge advertising and sales promotion blitz.
- *Channel pressure.* Industry analysts predict that supermarket chain buyers will face more than 10,000 new grocery product introductions next year. The buyers accept only 38 per cent of these new products and give each one only five months to prove itself.
- *Demographic changes.* Increasing single parenthood and dual-income families will encourage the trends towards (1) pets that need little care (cats rather than dogs), and (2) smaller pets that eat less.
- *Politics.* European Union legislation will force manufacturers to disclose the content of their pet food. This will adversely affect the attractiveness of some ingredients like kangaroo and horsemeat.

Not all threats call for the same attention or concern – the manager should assess the likelihood of each threat and the potential damage each could cause. The manager should then focus on the most probable and harmful threats and prepare plans in advance to meet them.

Opportunities occur when an environmental trend plays to a company's strength. The manager should assess each opportunity according to its potential attractiveness and the company's probability of success. Companies can rarely find ideal opportunities that exactly fit their objectives and resources. The development of opportunities involves risks. When evaluating opportunities, the manager must decide whether the expected returns justify these risks. A trend or development can be a threat or an opportunity, depending on a company's



Mont Blanc competes in the exquisite accessories market, capitalising on its strength as a maker of exclusive pens, to add watches, men's fragrances and other products to its range. SOURCE: Mont Blanc and the Advertising Archives.

strengths. The development of the steel-braced radial tyre was an opportunity for Michelin, which used its technological lead to gain market share. To the rest of the industry, the new technology was a threat because the tyre's longer life reduced total demand and the new technology made their plant obsolete.

Strengths and weaknesses

The strengths and weaknesses in the SWOT analysis do not list all features of a company, but only those relating to critical success factors. A list that is too long betrays a lack of focus and an inability to discriminate what is important. The strengths or weaknesses are *relative*, not absolute. It is nice to be good at something, but it can be a weakness if the competition is stronger. Mercedes is good at making reliable luxury cars with low depreciation, but this stopped being a strength when Honda's Acura and Toyota's Lexus beat Mercedes on all three fronts in the American market. The Japanese products were not cheap, but they were styled for the American market and came with all the extras that buyers of German luxury cars had to pay for. Finally, the strengths should be *based on fact*. In buying Skoda, VW has acquired a well-known brand name, but is the name a strength? A failure to understand true strengths can be dangerous. A well-known aircraft manufacturer for years promoted the quality of its after-sales service. Only after another company acquired it did it find out that its reputation was the worst in the industry.

A major pet food manufacturer could pitch the following strengths and weaknesses against the opportunities and threats.

Critical success factors—

The strengths and weaknesses that most critically affect an organisation's success. These are measured relative to competition.

Strengths

- Market leader in the dry cat food market.
- Access to the group's leading world position in food technology.
- Market leader in luxury pet foods.
- The group's excellent worldwide grocery distribution.
- Pet food market leader in several big markets, including France, Italy, Spain and South America.

Weaknesses

- Number three in the wet pet food market.
- Excessive product range with several low-volume brands.
- Most brand names are little known, and are cluttered following acquisitions.
- Relatively low advertising and promotions budget.
- Product range needs many manufacturing skills.
- Poor store presence in several large markets: Germany, UK, USA and Canada.
- Overall poor profit performance.

The pet food company shows how some parts of the SWOT balance. The strengths in dry and luxury pet foods match demographic trends, so this looks like an opportunity for growth. Access to food technology should also help the company face changing consumer tastes and legislation. The weaknesses suggest a need for more focus. Dropping some uneconomic lines in the mass wet pet food market, simplifying the brand structure and concentrating on fewer manufacturing processes could release resources for developing the dry and luxury markets. By using its access to worldwide grocery distribution, the company could become profitable and focused.

Business portfolio—

The collection of businesses and products that make up the company.

Portfolio analysis—A tool by which management identifies and evaluates the various businesses that make up the company.

Strategic business unit

(SBU)—A unit of the company that has a separate mission and objectives and that can be planned independently from other company businesses. An SBU can be a company division, a product line within a division, or sometimes a single product or brand.

The business portfolio

The **business portfolio** is the collection of businesses and products that make up the company. It is a link between the overall strategy of a company and those of its parts. The best business portfolio is the one that fits the company's strengths and weaknesses to opportunities in the environment. The company must (1) analyse its *current* business portfolio and decide which businesses should receive more, less or no investment, and (2) develop growth strategies for adding *new* products or businesses to the portfolio.

Analysing the current business portfolio

Portfolio analysis helps managers evaluate the businesses making up the company. The company will want to put strong resources into its more profitable businesses and phase down or drop its weaker ones. Financial Times-owned publishers Dorling Kindersley needed 'remedial surgery' to allow them to concentrate on their core business of illustrated books. In doing so they scaled back activities such as CD-ROM publishing, video production and door-to-door sales network.¹¹

Management's first step is to identify the key businesses making up the company. These are strategic business units. A **strategic business unit (SBU)** is a unit of the company that has a separate mission and objectives, and which can be planned independently from other company businesses. An SBU can be a company division, a product line within a division, or sometimes a single product or brand.

The next step in business portfolio analysis calls for management to assess the attractiveness of its various SBUs and decide how much support each deserves. In some companies, this

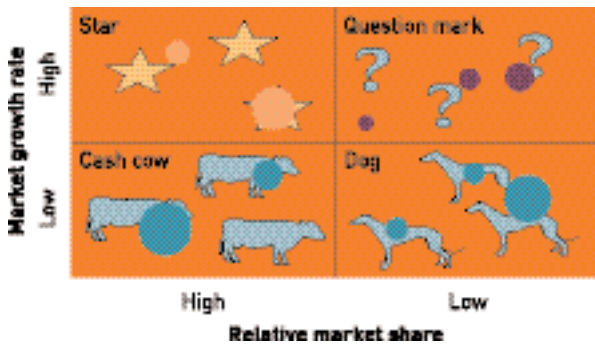


Figure 2.3 The BCG growth–share matrix

occurs informally. Management looks at the company’s collection of businesses or products and uses judgement to decide how much each SBU should contribute and receive. Other companies use formal portfolio-planning methods.

The purpose of strategic planning is to find ways in which the company can best use its strengths to take advantage of attractive opportunities in the environment. So most standard portfolio-analysis methods evaluate SBUs on two important dimensions: the attractiveness of the SBU’s market or industry, and the strength of the SBU’s position in that market or industry. The best-known portfolio-planning methods are from the Boston Consulting Group, a leading management consulting firm, and by General Electric and Shell.

The Boston Consulting Group box

Using the Boston Consulting Group (BCG) approach, a company classifies all its SBUs according to the *growth–share matrix* shown in Figure 2.3. On the vertical axis, *market growth rate* provides a measure of market attractiveness. On the horizontal axis, *relative market share* serves as a measure of company strength in the market. By dividing the growth–share matrix as indicated, four types of SBU can be distinguished:

1. **Stars.** Stars are high-growth, high-share businesses or products. They often need heavy investment to finance their rapid growth. Eventually their growth will slow down, and they will turn into cash cows.
2. **Cash cows.** Cash cows are low-growth, high-share businesses or products. These established and successful SBUs need less investment to hold their market share. Thus they produce cash that the company uses to pay its bills and to support other SBUs that need investment.
3. **Question marks.** Question marks are low-share business units in high-growth markets. They require cash to hold their share, let alone increase it. Management has to think hard about question marks – which ones they should build into stars and which ones they should phase out.
4. **Dogs.** Dogs are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not promise to be large sources of cash.

The 10 circles in the growth–share matrix represent a company’s 10 current SBUs. The company has two stars, two cash cows, three question marks and three dogs. The areas of the circles are proportional to the SBUs’ sales value. This company is in fair shape, although not in good shape. It wants to invest in the more promising question marks to make them stars, and to maintain the stars so that they will become cash cows as their markets mature. Fortunately, it has two good-sized cash cows whose income helps finance the company’s question marks, stars and dogs. The company should take some decisive action concerning its dogs and its question marks. The picture would be worse if the company had no stars, or had too many dogs, or had only one weak cash cow.

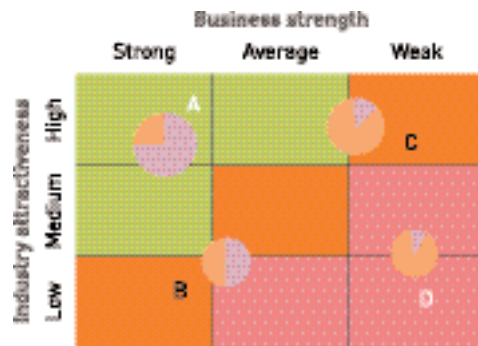
Stars—High-growth, high-share businesses or products that often require heavy investment to finance their rapid growth.

Cash cows—Low-growth, high-share businesses or products; established and successful units that generate cash that the company uses to pay its bills and support other business units that need investment.

Question marks—Low-share business units in high-growth markets that require a lot of cash in order to hold their share or become stars.

Dogs—Low-growth, low-share businesses and products that may generate enough cash to maintain themselves, but do not promise to be large sources of cash.

Figure 2.4 GE's strategic business-planning grid



Once it has classified its SBUs, the company must determine what role each will play in the future. There are four alternative strategies for each SBU. The company can invest more in the business unit to *build* its share. It can invest just enough to *hold* the SBU's share at the current level. It can *harvest* the SBU, milking its short-term cash flow regardless of the long-term effect. Finally, the company can *divest* the SBU by selling it or phasing it out and using the resources elsewhere.

As time passes, SBUs change their positions in the growth–share matrix. Each SBU has a life-cycle. Many SBUs start out as question marks and move into the star category if they succeed. They later become cash cows as market growth falls, then finally die off or turn into dogs towards the end of their life-cycle. The company needs to add new products and units continuously, so that some of them will become stars and, eventually, cash cows that will help finance other SBUs.

The General Electric grid

General Electric introduced a comprehensive portfolio planning tool called a *strategic business-planning grid* (see Figure 2.4). It is similar to Shell's *directional policy matrix*. Like the BCG approach, it uses a matrix with two dimensions – one representing industry attractiveness (the vertical axis) and one representing company strength in the industry (the horizontal axis). The best businesses are those located in highly attractive industries where the company has high business strength.

The GE approach considers many factors besides market growth rate as part of *industry attractiveness*. It uses an industry attractiveness index made up of market size, market growth rate, industry profit margin, amount of competition, seasonality and cycle of demand, and industry cost structure. Each of these factors is rated and combined in an index of industry attractiveness. For our purposes, an industry's attractiveness is high, medium or low. As an example, the Dutch chemical giant Akzo Nobel has identified speciality chemicals, coatings and pharmaceuticals as attractive. Its less attractive bulk chemical and fibre businesses are being sold.

For *business strength*, the GE approach again uses an index rather than a simple measure of relative market share. The business strength index includes factors such as the company's relative market share, price competitiveness, product quality, customer and market knowledge, sales effectiveness and geographic advantages. These factors are rated and combined in an index of business strengths described as strong, average or weak.

The grid has three zones. The green cells at the upper left include the strong SBUs in which the company should invest and grow. The amber diagonal cells contain SBUs that are medium in overall attractiveness. The company should maintain its level of investment in these SBUs. The three red cells at the lower right indicate SBUs that are low in overall attractiveness. The company should give serious thought to harvesting or divesting these SBUs.

Chapter 2 Strategic marketing

The circles represent four company SBUs; the areas of the circles are proportional to the relative sizes of the industries in which these SBUs compete. The pie slices within the circles represent each SBU's market share. Thus circle A represents a company SBU with a 75 per cent market share in a good-sized, highly attractive industry in which the company has strong business strength. Circle B represents an SBU that has a 50 per cent market share, but the industry is not very attractive. Circles C and D represent two other company SBUs in industries where the company has small market shares and not much business strength. Altogether, the company should build A, maintain B and make some hard decisions on what to do with C and D.

Management would also plot the projected positions of the SBUs with and without changes in strategies. By comparing current and projected business grids, management can identify the primary strategic issues and opportunities it faces. One of the aims of portfolio analysis is to direct firms away from investing in markets that look attractive, but where they have no strength:

In their rush away from the declining steel market, four of Japan's 'famous five' big steel makers (Nippon, NKK, Kawasaki, Sumitomo and Kobe) diversified into the microchip business. They had the misplaced belief that chips would be to them in the future what steel had been to the 1950s and that they had to be part of it. The market was attractive but it did not fit their strengths. So far, none have made money from chips. The misadventure also distracted them from attending to their core business.

The 'famous five's' failure contrasts with Eramet, a focused French company who are the world's biggest producer of Ferro-nickel and high-speed steels. They owe their number one position to their decision to invest their profits in a 'second leg' that would be a logical industrial and geographical diversification for them. They bought French Commentryene and Swedish Kloster Speedsteel. They quickly integrated them and, according to Yves Rambert, their chairman and chief executive, 'found that the French and the Swedes can work together'.¹²

Problems with matrix approaches

The BCG, GE, Shell and other formal methods revolutionised strategic planning. However, such approaches have limitations. They can be difficult, time consuming and costly to implement. Management may find it difficult to define SBUs and measure market share and growth. In addition, these approaches focus on classifying *current* businesses, but provide little advice for *future* planning. Management must still rely on its judgement to set the business objectives for each SBU, to determine what resources to give to each and to work out which new businesses to add.

Formal planning approaches can also lead the company to place too much emphasis on market-share growth or growth through entry into attractive new markets. Using these approaches, many companies plunged into unrelated and new high-growth businesses that they did not know how to manage – with very bad results. At the same time, these companies were often too quick to abandon, sell or milk to death their healthy, mature businesses. As a result, many companies that diversified in the past are now narrowing their focus and getting back to the industries that they know best (see Marketing Insights 2.2).

2.2 KISS (Keep It Simple Stupid)

When times are good, many businesses catch expansion fever. 'Big is beautiful' and everyone wanted to get bigger and grow faster by broadening their business portfolios. Companies like Vivendi and Warner Bros. neglected their stodgy core businesses to acquire glamorous businesses in more attractive industries. It did not seem to matter that many of the acquired businesses fitted poorly with old ones, or that they operated in markets unfamiliar to company management.

Many firms exploded into conglomerates, sometimes containing hundreds of unrelated products and businesses. Extreme cases involved French banks and Japanese electronics companies buying Hollywood film studios. Managing these 'smorgasbord' portfolios proved difficult. Eventually managers realised that it was tough to run businesses they knew little about. Many newly acquired businesses were also bogged down under added layers of corporate management and administrative costs. Meanwhile, the profitable core businesses wither from lack of investment and management attention.

Encumbered with the burden of their scattergun diversification, acquisition fever gave way to a new philosophy of keeping things simple: 'narrowing the focus', 'sticking to your knitting', 'the urge to purge'. They all mean narrowing the company's market focus and returning to the idea of serving one or a few core industries that the firm knows. Companies are shedding businesses that do not fit their narrowed focus and rebuilding by concentrating resources on other businesses that do. Examples are Royal Dutch/Shell's sale of their coal division or Lucas selling swathes of peripheral and underperforming activities to refocus on its core of automotive, aerospace and electronic components. The result is a smaller, but more focused company: a stronger firm serving fewer markets, but serving them much better.

When Cor Boonstra joined Philips, as their first outsider to become President, he was horrified at what he found. Philips was the world's number one in lighting, number two in television tubes and number eight in semiconductors, but had lots of other activities bleeding cash and managerial time. Its lighting and tubes were under pressure from manufacturers from South Korea and Taiwan, but the ability to compete was being swamped by numerous unconnected and loss-making businesses. Boonstra also inherited a 'hopelessly bureaucratic' business with layers and layers of management between factory and consumer. His strategy was to take the company back to its core strengths in 'high-volume consumer electronics'. Marketing expenditure in the core businesses was to increase while the strategy was to 'close, fix or sell' the 'bleeders'. Among the non-core businesses sold are Polygram, a music and film business, a chain of video stores and loss-making Grundig. In his first two years Boonstra sold off 40 businesses, losing 28,000 workers but bringing in €8bn to

invest in the core. The company shrunk to a less bloated eight divisions with 80 businesses from 120 businesses in 11 divisions, but many more factories have to go. However, all is not gloom. While becoming a less complex company, Philips is gaining market share in its major markets and profits are growing.

Philips is now facing a dilemma that concentration forces on many businesses. Should it sell the very business on which it was founded? Reckitt & Colman did that when they sold Colman's mustard. Lighting is profitable and strong business but it is far from its chosen future in consumer electronics.

Now boom has turned to bust, many companies are wondering how to manage themselves through the hard times. There are excellent examples of how to do so. Even in such depressed economies as Germany and Japan, Kao, VW, Honda, Siemens and Canon continue to gain strength while all about them are floundering. Their secret is to gain from global-scale economies, process and product innovation, keeping their eyes on cash flows and the bottom line, and stick to their core businesses. In other words, come boom or bust, there is one strategy: keep it simple, stupid.

SOURCES: *The Economist*, 'Oil and coal: downcast' (4 September 1999), p. 81; Barbara Smirt, 'Philips to focus on consumer electronics', *Financial Times* (13 February 1998), p. 29; *The Economist*, 'Philips: the shrinking company' (8 May 1999), pp. 98–9; *The Economist*, 'Vivendi Universal: messier's mess' (8 June 2002), pp. 69–71; *The Economist*, 'Media conglomerates: tangled web' (25 May 2002), pp. 81–3; *The Economist*, 'Rising above the sludge' (15 April 2003), pp. 77–9.

Despite these and other problems, and although many companies have dropped formal matrix methods in favour of customised approaches better suited to their situations, most companies remain firmly committed to strategic planning.

Such analysis is no cure-all for finding the best strategy. Conversely, it can help management to understand the company's overall situation, to see how each business or product contributes, to assign resources to its businesses, and to orient the company for future success. When used properly, strategic planning is just one important aspect of overall strategic management, a way of thinking about how to manage a business.¹³

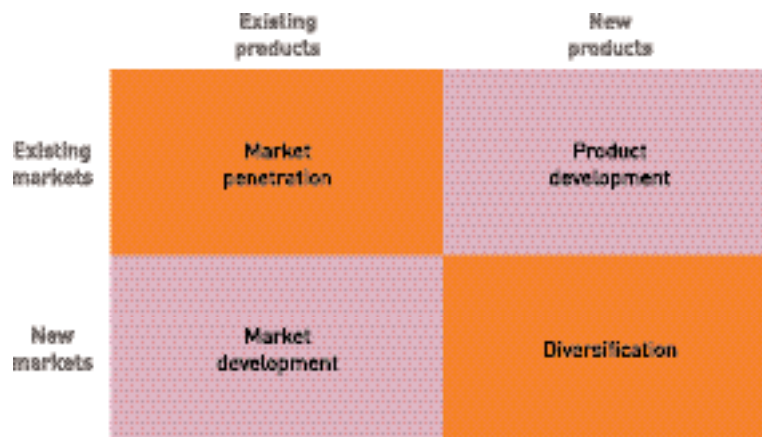
Developing growth strategies

The product/market expansion grid,¹⁴ shown in Figure 2.5, is a useful device for identifying growth opportunities. This shows four routes to growth: market development, new markets, new products and diversification. We use the grid to explain how Mercedes-Benz, the luxury car division of DaimlerChrysler, hoped to return to profits after its €1bn loss in mid-1990.¹⁵

Market penetration

The new C-class (medium-sized family saloon) and E-class (executive saloon) helped Mercedes-Benz increase its sales by 23 per cent, besides costing less to produce. Sales were up 40 per cent in western Europe (excluding Germany), 34 per cent in the United States and 30 per cent in Japan. In Germany, the 38 per cent growth gave a 2 per cent rise in market share.

Figure 2.5 Product/market expansion grid



Market development

With its A-class small family saloon and Smart Car, Mercedes entered the small car market, while the relaunch of the Maybach brought the company back into the super luxury price bracket. Besides offering cost savings, the formation of DaimlerChrysler in 1998 gave the company a chance to develop lower-price brands worldwide through products like the Chrysler Neon and Voyager. However, there is some worry that the build quality and association with such down-market products is tarnishing Mercedes' reputation for safety and quality. Additionally, executing the merger between the two companies with such strong but different cultures has proved as difficult as could be expected.

The company's global coverage and small car skills have more recently been extended by deals with troubled Asian car makers: Japan's Mitsubishi Motors and South Korea's Hyundai.

Diversification

Diversification was an option taken by Mercedes. After rapidly moving into aerospace, its DASA defence subsidiary is now merged into the Franco-German EADS (European Aeronautic Defence and Space Company). The company is also selling loss-making subsidiaries, such as rail equipment maker Adtranz.¹⁶

Marketing within strategic planning

Planning functional strategies

The company's strategic plan establishes what kinds of business the company will be in and its objectives for each. Then, within each business unit, more detailed planning takes place. The main functional departments in each unit – marketing, finance, accounting, buying, manufacturing, personnel and others – must work together to accomplish strategic objectives.

Each functional department deals with different publics to obtain resources such as cash, labour, raw materials, research ideas and manufacturing processes. For example, marketing brings in revenues by negotiating exchanges with consumers. Finance arranges exchanges with lenders and stockholders to obtain cash. Thus the marketing and finance departments must work together to obtain needed funds. Similarly, the personnel department supplies labour, and the buying department obtains materials needed for operations and manufacturing.

Marketing's role in strategic planning

There is much overlap between overall company strategy and marketing strategy. Marketing looks at consumer needs and the company's ability to satisfy them; these factors guide the company mission and objectives. Most company strategic planning deals with marketing variables – market share, market development, growth – and it is sometimes hard to separate strategic planning from marketing planning. Some companies refer to their strategic planning as 'strategic marketing planning'.

Marketing plays a key role in the company's strategic plans in several ways. First, marketing provides a guiding *philosophy* – company strategy should revolve around serving the needs of important consumer groups. Second, marketing provides *inputs* to strategic planners by helping to identify attractive market opportunities and by assessing the firm's potential to take advantage of them. Finally, within individual business units, marketing designs *strategies* for reaching the unit's objectives.

Within each business unit, marketing management determines how to help achieve strategic objectives. Some marketing managers will find that their objective is not to build sales. Rather, it may be to hold existing sales with a smaller marketing budget, or even to reduce demand. Thus marketing management must manage demand to the level decided upon by the strategic planning prepared at headquarters. Marketing helps to assess each business unit's potential, set objectives for it and then achieve those objectives.

Marketing and the other business functions

In some firms, marketing is just another function – all functions count in the company and none takes leadership. At the other extreme, some marketers claim that marketing is the *principal* function of the firm. They quote Drucker's statement: 'The aim of the business is to create customers.' They say it is marketing's job to define the company's mission, products and markets, and to direct the other functions in the task of serving customers.

Enlightened marketers put the *customer*, not their department, at the centre of the company. Firms cannot succeed without customers, so the crucial task is to attract and hold them. Customers are attracted by promises and held by satisfaction. Marketing defines the promise and ensures its delivery. However, consumer satisfaction is affected by the performance of other departments, so *all* functions should work together to sense, serve and satisfy customer needs.

Each business function has a different view of which publics and activities are most important. Manufacturing focuses on suppliers and production; finance addresses stockholders and sound investment; marketing emphasises consumers and products, pricing, promotion and distribution. Ideally, all the different functions should blend to achieve consumer satisfaction. In practice, departmental relations are full of conflicts and misunderstandings. The marketing department takes the consumer's point of view. But when marketing tries to develop customer satisfaction, it often causes other departments to do a poorer job *in their terms*. Marketing department actions can increase buying costs, disrupt production schedules, increase inventories and create budget headaches. Thus the other departments may resist bending their efforts to the will of the marketing department.

Despite the resistance, marketers must champion all departments' 'thinking consumer' and put the consumer at the centre of the company. Customer satisfaction requires a total company effort to deliver superior value to target customers.

Creating value for buyers is much more than a 'marketing function'; rather, it is 'analogous to a symphony orchestra in which the contribution of each subgroup is tailored and integrated by a conductor – with a synergistic effect. A seller must draw upon and

integrate effectively . . . its entire human and other capital resources . . . [Creating superior value for buyers] is the proper focus of the entire business and not merely of a single department in it.’¹⁷

The marketing plan

Within an organisation’s strategic plan are marketing plans for each business, product or brand. A series of separate plans is necessary because even within a well-focused company product classes can face hugely different circumstances.

In Europe’s super-hot summer of 2003 Nestlé gave out profit warnings because the high temperature reduced people’s consumption of some processed food while the popularity of the Atkins diet hit diet and slimming lines. Meanwhile, ice cream and mineral water sales skyrocketed. Elsewhere, the usually hot and humid north-east coast of the US hardly had a day without rain and clouds.

What does a marketing plan look like? Our discussion focuses on product or brand plans that are a development of the general planning process in Figure 2.1. A product or brand plan should have an executive summary, the current marketing situation, threats and opportunities, objectives and issues, marketing strategies, action programmes, budgets and controls (see Table 2.1).¹⁸

Table 2.1 Contents of a marketing plan

Section	Purpose
Executive summary	Presents a quick overview of the plan for quick management review.
Current marketing situation	The marketing audit that presents background data on the market, product, competition and distribution.
SWOT analysis	Identifies the company’s main <i>strengths</i> and <i>weaknesses</i> and the main <i>opportunities</i> and <i>threats</i> facing the product.
Objectives and issues	Defines the company’s objectives in the areas of sales, market share and profits, and the issues that will affect these objectives.
Marketing strategy	Presents the broad marketing approach that will be used to achieve the plan’s objectives.
Action programmes	Specifies <i>what</i> will be done, <i>who</i> will do it, <i>when</i> it will be done and <i>what</i> it will cost.
Budgets	A projected profit-and-loss statement that forecasts the expected financial outcomes from the plan.
Controls	Indicates how the progress of the plan will be monitored.

Executive summary

The marketing plan should open with a short summary of the main goals and recommendations in the plan. Here is a short example:

The 2003 Marketing Plan outlines an approach to attaining a significant increase in company sales and profits over the preceding year. The sales target is €24 million – a planned 20 per cent sales gain. We think this increase is attainable because of the improved economic, competitive, and distribution picture. The target operating margin is €2.5 million, a 25 per cent increase over last year. To achieve these goals, the sales promotion budget will be €500,000, or 2 per cent of projected sales. The advertising budget will be €720,000, or 3 per cent of projected sales . . . [more details follow]

The executive summary helps top management to find the plan's central points quickly. A table of contents should follow the executive summary.

Marketing audit

The **marketing audit** is a systematic and periodic examination of a company's environment, objectives, strategies and activities to determine problem areas and opportunities. The first main section of the plan describes the target market and the company's position in it (Table 2.2 gives the questions asked). It should start with the strategic imperatives: the pertinent objectives, policies and elements of strategy passed down from broader plans. In the **current marketing situation** section, the planner provides information about the market, product performance, competition and distribution. It includes a *market description* that defines the market, including chief market segments. The planner shows market size, in total and by segment, for several past years, and then reviews customer needs together with factors in the marketing environment that may affect customer purchasing. Next, the *product review* shows sales, prices and gross margins of the principal products in the product line. A section on *competition* identifies big competitors and their individual strategies for product quality, pricing, distribution and promotion. It also shows the market shares held by the company and each competitor. Finally, a section on *distribution* describes recent sales trends and developments in the primary distribution channels.

Managing the marketing function would be hard enough if the marketer had to deal only with the controllable marketing-mix variables. Reality is harder. The company is in a complex marketing environment consisting of uncontrollable forces to which the company must adapt. The *environment* produces both threats and opportunities. The company must carefully analyse its environment so that it can avoid the threats and take advantage of the opportunities.

The company's marketing environment includes forces close to the company that affect its ability to serve its consumers, such as other company *departments*, *channel members*, *suppliers*, *competitors* and other *publics*. It also includes broader *demographic* and *economic* forces, *political* and *legal* forces, *technological* and *ecological* forces, and *social* and *cultural* forces. The company must consider all of these forces when developing and positioning its offer to the target market.

SWOT analysis

The SWOT analysis section draws from the market audit. It is a brief list of the critical success factors in the market, and rates strengths and weaknesses against the competition. The SWOT analysis should include costs and other non-marketing variables. The outstanding opportunities and threats should be given. If plans depend upon assumptions about the market, the economy or the competition, they need to be explicit.

Marketing audit—A comprehensive, systematic, independent and periodic examination of a company's environment, objectives, strategies and activities to determine problem areas and opportunities, and to recommend a plan of action to improve the company's marketing performance.

Current marketing situation—The section of a marketing plan that describes the target market and the company's position in it.

Table 2.2 Marketing audit questions

Marketing environment audit
<i>The macroenvironment</i>
<ol style="list-style-type: none"> 1. <i>Demographic.</i> What primary demographic trends pose threats and opportunities for this company? 2. <i>Economic.</i> What developments in income, prices, savings and credit will impact on the company? 3. <i>Natural.</i> What is the outlook for costs and availability of natural resources and energy? Is the company environmentally responsible? 4. <i>Technology.</i> What technological changes are occurring? What is the company's position on technology? 5. <i>Political.</i> What current and proposed laws will affect company strategy? 6. <i>Cultural.</i> What is the public's attitude towards business and the company's products? What changes in consumer lifestyles might have an impact?
<i>The task environment</i>
<ol style="list-style-type: none"> 1. <i>Markets.</i> What is happening to market size, growth, geographic distribution and profits? What are the large market segments? 2. <i>Customers.</i> How do customers rate the company on product quality, service and price? How do they make their buying decisions? 3. <i>Competitors.</i> Who are the chief competitors? What are their strategies, market shares, and strengths and weaknesses? 4. <i>Channels.</i> What main channels does the company use to distribute products to customers? How are they performing? 5. <i>Suppliers.</i> What trends are affecting suppliers? What is the outlook for the availability of key production resources? 6. <i>Publics.</i> What key publics provide problems or opportunities? How should the company deal with these publics?
Marketing strategy audit
<ol style="list-style-type: none"> 1. <i>Mission.</i> Is the mission clearly defined and market-oriented? 2. <i>Objectives.</i> Has the company set clear objectives to guide marketing planning and performance? Do these objectives fit with the company's opportunities and strengths? 3. <i>Strategy.</i> Does the company have a sound marketing strategy for achieving its objectives? 4. <i>Budgets.</i> Has the company budgeted sufficient resources to segments, products, territories and marketing-mix elements?
Marketing organisation audit
<ol style="list-style-type: none"> 1. <i>Formal structure.</i> Does the chief marketing officer have adequate authority over activities affecting customer satisfaction? Are activities optimally structured along functional, product, market and territory lines? 2. <i>Functional efficiency.</i> Do marketing, sales and other staff communicate effectively? Are the staff well trained, supervised, motivated and evaluated? 3. <i>Interface efficiency.</i> Do staff work well across functions: marketing with manufacturing, R&D, buying, personnel, etc.?

Table 2.2 (cont'd)

Marketing systems audit
<ol style="list-style-type: none"> 1. <i>Marketing information system.</i> Is the marketing intelligence system providing accurate and timely information about developments? Are decision makers using marketing research effectively? 2. <i>Planning system.</i> Does the company prepare annual, long-term and strategic plans? Are they used? 3. <i>Marketing control system.</i> Are annual plan objectives being achieved? Does management periodically analyse the sales and profitability of products, markets, territories and channels? 4. <i>New-product development.</i> Is the company well organised to gather, generate and screen new-product ideas? Does it carry out adequate product and market testing? Has the company succeeded with new products?
Productivity audit
<ol style="list-style-type: none"> 1. <i>Profitability analysis.</i> How profitable are the company's different products, markets, territories and channels? Should the company enter, expand or withdraw from any business segments? What would be the consequences? 2. <i>Cost-effectiveness analysis.</i> Do any activities have excessive costs? How can costs be reduced?
Marketing function audit
<ol style="list-style-type: none"> 1. <i>Products.</i> Has the company developed sound product-line objectives? Should some products be phased out? Should some new products be added? Would some products benefit from quality, style or feature changes? 2. <i>Price.</i> What are the company's pricing objectives, policies, strategies and procedures? Are the company's prices in line with customers' perceived value? Are price promotions used properly? 3. <i>Distribution.</i> What are the distribution objectives and strategies? Does the company have adequate market coverage and service? Should existing channels be changed or new ones added? 4. <i>Advertising, sales promotion and publicity.</i> What are the company's promotion objectives? How is the budget determined? Is it sufficient? Are advertising messages and media well developed and received? Does the company have well-developed sales promotion and public relations programmes? 5. <i>Sales force.</i> What are the company's sales force objectives? Is the sales force large enough? Is it properly organised? Is it well trained, supervised and motivated? How is the sales force rated relative to those of competitors?

Objectives and issues

Having studied the strengths, weaknesses, opportunities and threats, the company sets objectives and considers issues that will affect them. The objectives are goals that the company would like to attain during the plan's term. For example, the manager might want to achieve a 15 per cent market share, a 20 per cent pre-tax profit on sales and a 25 per cent pre-tax profit on investment. If current market share is only 10 per cent, the question needs answering: Where are the extra sales to come from? From the competition, by increasing usage rate, by adding, and so on?

Marketing strategy

In this section of the marketing plan, the manager outlines the broad marketing strategy or 'game plan' for attaining the objectives. Marketing strategy is the marketing logic by which the business unit hopes to achieve its marketing objectives. It shows how strategies for target markets and positioning build upon the firm's differential advantages. It should detail the market segments on which the company will focus. These segments differ in their needs and wants, responses to marketing, and profitability. The company should put its effort into those market segments it can best serve from a competitive point of view. It should develop a marketing strategy for each targeted segment.

Marketing mix

The manager should also outline specific strategies for such marketing mix elements in each target market: new products, field sales, advertising, sales promotion, prices and distribution. The manager should explain how each strategy responds to the threats, opportunities and critical issues described earlier in the plan.

Action programmes

Marketing strategies become specific action programmes that answer the following questions: *What* will be done? *When* will it be done? *Who* is responsible for doing it? *How much* will it cost? For example, the manager may want to increase sales promotion as a key strategy for winning market share. A sales promotion action plan should outline special offers and their dates, trade shows entered, new point-of-purchase displays and other promotions. The action plan shows when activities will start, be reviewed and be completed.

Budgets

Action plans allow the manager to make a supporting marketing budget that is essentially a projected profit and loss statement. For revenues, it shows the forecast unit sales and the average net price. On the expense side, it shows the cost of production, physical distribution and marketing. The difference is the projected profit. Higher management will review the budget and either approve or modify it. Once approved, the budget is the basis for materials buying, production scheduling, personnel planning and marketing operations. Budgeting can be very difficult and budgeting methods range from simple 'rules of thumb' to complex computer models.

Controls

The last section of the plan outlines the controls that will monitor progress. Typically, there are goals and budgets for each month or quarter. This practice allows higher management to review the results of each period and to spot businesses or products that are not meeting their goals. The managers of these businesses and products have to explain these problems and the corrective actions they will take.

Marketing implementation—

The process that turns marketing strategies and plans into marketing actions in order to accomplish strategic marketing objectives.

Implementation

Planning good strategies is only a start towards successful marketing. A brilliant marketing strategy counts for little if the company fails to implement it properly. **Marketing implementation** is the process that turns marketing strategies and *plans* into marketing *actions* to accomplish strategic marketing objectives. Implementation involves day-to-day, month-to-month activities that effectively put the marketing plan to work. Whereas

marketing planning addresses the *what* and *why* of marketing activities, implementation addresses the *who*, *where*, *when* and *how*.

Marketing organisation

The company must have people who can carry out marketing analysis, planning, implementation and control. If the company is very small, one person might do all the marketing work – research, selling, advertising, customer service and other activities. As the company expands, organisations emerge to plan and carry out marketing activities. In large companies there can be many specialists: brand managers, salespeople and sales managers, market researchers, advertising experts and other specialists.

Modern marketing activities occur in several forms. The most common form is the *functional organisation*, in which functional specialists head different marketing activities – a sales manager, an advertising manager, a marketing research manager, a customer service manager, a new-product manager. A company that sells across the country or internationally often uses a *geographic organisation*, in which its sales and marketing people run specific countries, regions and districts. A geographic organisation allows salespeople to settle into a territory, get to know their customers, and work with a minimum of travel time and cost.

Companies with many very different products or brands often create a *product management* or *brand management* organisation. Using this approach, a manager develops and implements a complete strategy and marketing programme for a specific product or brand. Product management first appeared in Procter & Gamble in 1929. A new soap, Camay, was not doing well, and a young P&G executive was assigned to give his exclusive attention to developing and promoting this brand. He was successful, and the company soon added other product managers. Since then, many firms, especially consumer products companies, have set up product management organisations. However, recent changes in the marketing environment have caused many companies to rethink the role of the product manager. Many companies are finding that today's marketing environment calls for less brand focus and more customer focus. They are shifting towards *customer equity management* – moving away from managing just product profitability and towards managing *customer profitability*.¹⁹

For companies that sell one product line to many different types of markets and customers who have different needs and preferences, a *market* or *customer management organisation* might be best. A market management organisation is similar to the product management organisation. Market managers are responsible for developing marketing strategies and plans for their specific markets or customers. This system's main advantage is that the company is organised around the needs of specific customer segments.

Large companies that produce many different products flowing into many different geographic and customer markets usually employ some *combination* of the functional, geographic, product, and market organisation forms. This ensures that each function, product and market receives its share of management attention. However, it can also add costly layers of management and reduce organisational flexibility. Still, the benefits of organisational specialisation usually outweigh the drawbacks.

Marketing control

Because many surprises occur during the implementation of marketing plans, the marketing department must engage in constant marketing control. **Marketing control** is the process of measuring and evaluating the results of marketing strategies and plans and taking corrective action to ensure the achievement of marketing objectives. It involves the four steps shown in

Marketing control—

The process of measuring and evaluating the results of marketing strategies and plans, and taking corrective action to ensure that marketing objectives are attained.

Figure 2.6 The control process



Figure 2.6. Management first sets specific marketing goals. It then measures its performance in the marketplace and evaluates the causes of any differences between expected and actual performance. Finally, management takes corrective action to close the gaps between its goals and its performance. This may require changing the action programmes or even changing the goals.

Operating control—Checking ongoing performance against annual plans and taking corrective action.

Strategic control—Checking whether the company’s basic strategy matches its opportunities and strengths.

Operating control involves checking ongoing performance against the annual plan and taking corrective action when necessary. Its purpose is to ensure that the company achieves the sales, profits and other goals set out in its annual plan. It also involves determining the profitability of different products, territories, markets and channels. **Strategic control** involves looking at whether the company’s basic strategies match its opportunities and strengths. Marketing strategies and programmes can quickly become outdated and each company should periodically reassess its overall approach to the marketplace. Besides providing the background for marketing planning, a *marketing audit* can also be a positive tool for strategic control. Sometimes it is conducted by an objective and experienced outside party who is independent of the marketing department. Table 2.2 showed the kind of questions the marketing auditor might ask. The findings may come as a surprise – and sometimes as a shock – to management. Management then decides which actions make sense and how and when to implement them.

Implementing marketing

Implementation is difficult – it is easier to think up good marketing strategies than it is to carry them out.

Many managers think that ‘doing things right’ (implementation) is as important as, or even more important than, ‘doing the right things’ (strategy). The fact is that both are critical to success.²⁰ However, companies can gain competitive advantages through effective implementation. One firm can have essentially the same strategy as another, yet win in the marketplace through faster or better execution.

In an increasingly connected world, people at all levels of the marketing system must work together to implement marketing plans and strategies. At Bosch, for example, marketing implementation for the company’s power tool products requires day-to-day decisions and actions by thousands of people both inside and outside the organisation. Marketing managers make decisions about target segments, branding, packaging, pricing, promoting, and distributing. They connect with people elsewhere in the company to get support for their products and programmes. They talk with engineering about product design, with manufacturing about production and inventory levels, and with finance about funding and cash flows. They also connect with outside people, such as advertising agencies to plan ad

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campaigns and the media to obtain publicity support. The sales force urges retailers to advertise Bosch products, provide ample shelf space, and use company displays.

Successful marketing implementation depends on how well the company blends its people, organisational structure, decision and reward systems, and company culture into a cohesive action programme that supports its strategies. At all levels, the company must be staffed by people who have the needed skills, motivation and personal characteristics. Before a company can hope to obtain and retain its customers, it must learn how to gain, train and retain its staff. A major recent study shows, within industries, human resource management and the quality of management training (particularly to MBA level) to be the largest indicator of company performance.

Another factor affecting successful implementation is the company's **decision-and-reward systems** – formal and informal operating procedures that guide planning, budgeting, compensation and other activities. For example, if a company compensates managers for short-run results, they will have little incentive to work towards long-run objectives. Companies recognising this are broadening their incentive systems to include more than sales volume. For instance, Xerox rewards include customer satisfaction and Ferrero's the freshness of its chocolates in stores. Effective implementation also requires careful planning. At all levels, the company must fill its structure and systems with people who have the necessary skills, motivation and personal characteristics. In recent years, more and more companies have recognised that long-run human resources planning can give the company a strong competitive advantage.

Finally, for successful implementation, the firm's marketing strategies must fit with its culture. *Company culture* is a system of values and beliefs shared by people in an organisation. It is the company's collective identity and meaning. The culture informally guides the behaviour of people at all company levels. Marketing strategies that do not fit the company's style and culture will be difficult to implement. Because managerial style and culture are so hard to change, companies usually design strategies that fit their current cultures rather than trying to change their styles and cultures to fit new strategies.²¹

Thus successful marketing implementation depends on how well the company blends five elements – action programmes, organisation structure, decision-and-reward systems, human resources and company culture – into a cohesive programme that supports its strategies.

Decision-and-reward systems—Formal and informal operating procedures that guide planning, budgeting, compensation and other activities.

Summary

Strategic planning involves developing a strategy for long-run survival and growth. Marketing helps in strategic planning, and the overall strategic plan defines marketing's role in the company. Not all companies use formal planning or use it well, yet formal planning offers several benefits. Companies develop three kinds of plan: *annual plans*, *long-range plans* and *strategic plans*.

Strategic planning sets the stage for the rest of company planning. The strategic planning process consists of developing the company's mission, understanding a company's strengths and weaknesses, its environment, business portfolio, objectives and goals, and functional plans. Developing a sound *mission statement* is a challenging undertaking. The mission statement should be market-oriented, feasible, motivating and specific, if it is to direct the firm to its best opportunities.

Companies have plans at many levels: global, regional, national and so forth. The higher-level plans contain objectives and strategies that become part of subordinate plans. These *strategic imperatives* are objectives or defined practices. At each level a *strategic audit* reviews the company and its environment. A *SWOT analysis* summarises the main elements of this audit into a statement of the company's strengths and weaknesses and the chief threats and opportunities that exist.

From here, strategic planning calls for analysing the company's *business portfolio* and deciding which businesses should receive more or fewer resources. The company might use a formal portfolio-planning method like the *BCG growth-share matrix* or the *General Electric grid*. However, most companies are now designing more customised portfolio-planning approaches that better suit their unique situations.

This analysis and mission lead to strategic objectives and goals. Management must decide how to achieve growth and profits objectives. The *product/market expansion grid* shows four avenues for market growth: *market penetration*, *market development*, *product development* and *diversification*.

Once strategic objectives and strategies are defined, management must prepare a set of *functional plans* that coordinate the activities of the marketing, finance, manufacturing and other departments. Each of the company's *functional departments* provides inputs for strategic planning. Each department has a different idea about which objectives and activities are most important. The marketing department stresses the consumer's point of view. Marketing managers must understand the point of view of the company's other functions and work with other functional managers to develop a system of plans that will best accomplish the firm's overall strategic objectives.

Each business must prepare marketing plans for its products, brands and markets. The main components of a *marketing plan* are the executive summary, current marketing situation, threats and opportunities, objectives and issues, marketing strategies, action programmes, budgets and controls. To plan good strategies is often easier than to carry them out. To be successful, companies must implement the strategies effectively. *Implementation* is the process that turns marketing strategies into marketing actions. The process consists of five key elements:

1. The *action programme* identifies crucial tasks and decisions needed to implement the marketing plan, assigns them to specific people and establishes a timetable.
2. The *organisation structure* defines tasks and assignments and coordinates the efforts of the company's people and units.

3. The company's *decision-and-reward systems* guide activities such as planning, budgeting, compensation and other activities. Well-designed action programmes, organisation structures and decision-and-reward systems can encourage good implementation.
4. Successful implementation also requires careful *human resources planning*. The company must obtain, maintain and retain good people.
5. The firm's *company culture* can also make or break implementation. Company culture guides people in the company; good implementation relies on strong, clearly defined cultures that fit the chosen strategy.

Most of the responsibility for implementation goes to the company's marketing department. Modern marketing activities occur in a number of ways. The most common form is the *functional marketing organisation*, in which marketing functions are directed by separate managers who report to the marketing director. The company might also use a *geographic organisation*, in which its sales force or other functions specialise by geographic area. After years of stability, market pressures are causing new organisational structures to be tried.

Marketing organisations carry out marketing control. *Operating control* involves monitoring results to secure the achievement of annual sales and profit goals. It also calls for determining the profitability of the firm's products, territories, market segments and channels. *Strategic control* makes sure that the company's marketing objectives, strategies and systems fit with the current and forecast marketing environment. It uses the *marketing audit* to determine marketing opportunities and problems, and to recommend short-run and long-run actions to improve overall marketing performance. The company uses these resources to watch and adapt to the marketing environment.

Discussing the issues

1. What are the benefits of a long-range plan? Does it have any role when forces, such as e-commerce, are changing markets so rapidly?
2. Many companies undertake a marketing audit to identify the firm's strengths and weaknesses relative to competitors, and in relation to the opportunities and threats in the external environment. Why is it important that such an analysis should address relative, not absolute, company strengths and weaknesses?
3. A tour operator has its own charter airline that is also used by other tour operators. The subsidiary is smaller and less profitable than are the competing charter airlines. Its growth rate has been below the industry average during the past five years. Into what cell of the BCG growth-share matrix does this strategic business unit fall? What should the parent company do with this SBU?
4. A consumer electronics company finds that sales in its main product line – CD players – are beginning to stabilise. The market is reaching maturity. What growth strategies might the firm pursue for this product line? How might the strategic-focus tool help managers examine the growth opportunities for this line?
5. The General Electric strategic business-planning grid gives a broad overview that can be helpful in strategic decision making. For what types of decision would this grid be helpful? For what types of strategic decision would it be less useful?
6. Sony's PlayStation is a market leader. Discuss how a competitor would use market-challenger, market-follower and market-nicher strategies to compete effectively with Sony.

Applying the concepts

1. Think of a product or service that has presented you with difficulties in recent weeks (such as late delivery or hard to locate products), then:
 - Use the Web to identify Internet-enhanced suppliers of that product or service.
 - Evaluate the strengths and weaknesses of Web providers in their ability to overcome the problem you faced.
 - Suggest alternative ways in which the Internet could be used to overcome the product or service failure you faced.
2. Take a product or service organisation you are familiar with.
 - List the key external environmental opportunities or threats that face the organisation.
 - What do you think are the organisation's main strengths and weaknesses?
 - Suggest ways in which the organisation might respond to the external forces.
 - Recommend a possible marketing strategy which will ensure that the organisation matches its internal capabilities with external opportunities.

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Concluding concept 2

Starbucks



Something was brewing in Seattle in the mid-1980s and it was not just coffee. While travelling in Italy, the popularity of Milan's espresso coffee bars impressed Howard Schultz. At the time, he was director of retail operations and marketing of Starbucks, a provider of coffee to fine restaurants. He concluded that more people needed to join the coffee bar culture – slow down, 'smell the coffee' and enjoy life a little more. From little beans big things grew. The result was Starbucks, the coffeehouse chain that started the trend in America of enjoying coffee to its fullest. Starbucks doesn't sell just coffee, it sells *The Starbucks Experience*. As one Starbucks executive puts it, 'We're not in the business of filling bellies, we're in the business of filling souls.'

Meanwhile, in a trailer park just outside Seattle, Kurt Cobain teamed up with Chris Noveselic to form Nirvana. Kurt Cobain's answer was not to slow down. With a psyche and passion too big for one body, he expressed the pain of a generation. While Howard Schultz wanted to calm things down, Kurt Cobain filled a musical gulf that captured the emptiness felt by his generation. The media captioned them 'Generation X'.

Kurt Cobain fulfilled his rock'n'roll destiny and ended his pain by dying young. Generation X continued refilling their souls at Starbucks. Starbucks is now a powerhouse premium brand in a category in which only cheaper commodity products once existed. As the brand has perked, Starbucks' sales and profits have risen like steam off a mug of hot java. Some 20 million customers visit the company's more than 5,500 stores worldwide each week – 10 per cent of them drop by twice a day. Guided by their mission (Exhibit 2.2), Starbucks' sales and earnings have both more than tripled over the last five years.

Starbucks' success, however, has drawn a full litter of copycats, including direct competitors such as Caribou Coffee, Costa Coffee and Coffee Republic. These days it seems that everyone is peddling its own brand of premium coffee. To maintain its phenomenal growth in an increasingly overcaffeinated marketplace, Starbucks has brewed up an ambitious, multipronged growth strategy:

Exhibit 2.2 Mission statement

Establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow.

The following six guiding principles will help us measure the appropriateness of our decisions:

- Provide a great work environment and treat each other with respect and dignity.
- Embrace diversity as an essential component in the way we do business.
- Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee.
- Develop enthusiastically satisfied customers all of the time.
- Contribute positively to our communities and our environment.
- Recognize that profitability is essential to our future success.

Starbucks is committed to a role of environmental leadership in all facets of our business.

- **More store growth.** Almost 85 per cent of Starbucks' sales comes from its stores. So, not surprisingly, Starbucks is opening new stores at a breakneck pace. Six years ago, Starbucks had just 1,015 stores in total – that's 400 fewer than it built last year alone. Although it may seem that there aren't many places left without a Starbucks, there's still plenty of room to expand. For example, in the US the entire state of Indiana has only one; and the states of Alabama, Arkansas, Mississippi and Tennessee have none at all. Even in crowded markets, such as New York, Paris and London, the company is unconcerned about store saturation. Schultz points to Vancouver, Canada, where competing Starbucks stores are located directly across the street from one another. Both stores generate more than \$1 million in annual sales, each well above the sales of a typical Starbucks.

Beyond opening new shops, Starbucks is expanding each store's food offerings, testing everything from Krispy Kreme doughnuts and Fresh Fields gourmet sandwiches to Greek pasta salads and assorted chips.

From little beans
big things grew.

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By offering a beefed-up menu, the company hopes to increase the average customer sales ticket while also boosting lunch and dinner traffic.

- **New retail channels.** The vast majority of coffee is bought in stores and sipped at home. To capture this demand, Starbucks is also pushing into supermarket aisles. However, rather than going head-to-head with giants such as Nestlé (Nescafé) and Kraft (Maxwell House, Sanka), Starbucks struck a co-branding deal with Kraft. Under this deal, Starbucks will continue to roast and package its coffee while Kraft will market and distribute it. Both companies benefit: Starbucks gains quick entry into 25,000 supermarkets, supported by the marketing muscle of 3,500 Kraft salespeople. Kraft tops off its coffee line with the best-known premium brand and gains quick entry into the fast-growing premium coffee segment.

Beyond supermarkets, Starbucks has forged an impressive set of new ways to bring its brand to market. Some examples: Marriott operates Starbucks kiosks in more than 60 airports, and several airlines serve Starbucks coffee to their passengers. Westin and Sheraton hotels offer packets of Starbucks coffee in their rooms. And Starbucks recently signed a deal to operate coffee shops within Waterstones' bookshop superstores. Starbucks also sells gourmet coffee, tea, gifts, and related goods through business and consumer catalogues. And its website, Starbucks.com, has become a kind of 'lifestyle portal' on which it sells coffee, tea, coffeemaking equipment, compact discs, gifts and collectibles.

- **New products and store concepts.** Starbucks has partnered with several firms to extend its brand into new categories. For example, it joined with PepsiCo to stamp the Starbucks brand on bottled Frappuccino drinks and a new DoubleShot espresso drink. Starbucks ice cream, marketed in a joint venture with Breyer's, is now a leading brand of coffee ice cream. Starbucks is also examining new store concepts. It's testing Café Starbucks, a European-style family bistro with a menu featuring everything from huckleberry pancakes to oven-roasted seared sirloin and Mediterranean chicken breast on focaccia. The company is also testing Circadia – a kind of bohemian coffeehouse with tattered rugs, high-speed Internet access, and live music as well as coffee specialities.
- **International growth.** Finally, Starbucks has gone global. In 1996, the company had only 11 coffeehouses outside North America. By 2003, the number had grown in 24 international markets, including more than 1,000 in

Asia and 600 in Europe. It is now moving rapidly into Latin America and South America, where it plans to build 900 stores by 2005.

Although Starbucks' growth strategy so far has met with great success, some analysts express strong concerns. What's wrong with Starbucks' rapid expansion? Some critics worry that the company may be overextending the Starbucks brand name. 'People pay up to \$3.15 for a caffe latte because it's supposed to be a premium product', asserts one such critic. 'When you see the Starbucks name on what an airline is pouring, you wonder.' Others fear that, by pursuing such a broad-based growth strategy, Starbucks will stretch its resources too thin or lose its focus.

Still others, however, remain true believers. Some even see similarities between Starbucks and a young McDonald's, which rode the humble hamburger to such incredible success. 'The similar focus on one product, the overseas opportunities, the rapid emergence as the dominant player in a new niche', says Goldman Sachs analyst Steve Kent, 'this all applies to Starbucks, too.' Only time will tell whether Starbucks turns out to be the next McDonald's – it all depends on how well the company manages growth. For now, things are really perking. But Starbucks has to be careful that it doesn't boil over.

Questions

1. What has suddenly made people across the world willing to pay three to four times more for a cup of coffee than they used to?
2. Contrast Starbucks' growth strategy with that of McDonald's. How do their growth strategies differ and what could explain the difference?
3. Evaluate the strengths, weaknesses, opportunities and threats of Starbucks. How are such trends as health concerns, the ageing population and anti-globalisation likely to affect the company?
4. Classify Starbucks using the BCG growth-share matrix. What are the implications of its position?
5. Thinking about the future, where do you anticipate Starbucks migrating to on the BCG matrix as the company matures? What strategy would you recommend in the light of Starbucks' future position?
6. To what extent do the elements of Starbucks' strategy concur with its mission?

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